

In the Matter of A Request by Northern
Minnesota Utilities for a Rule Variance
Regarding Calculation of Purchased Gas
Adjustments

ISSUE DATE: November 13, 1987

DOCKET NO. G007/M-87-662

ORDER GRANTING RULE VARIANCE IN
CALCULATION OF PURCHASED GAS
ADJUSTMENTS

PROCEDURAL HISTORY

On October 14, 1987 Northern Minnesota Utilities (NMU or the Company) filed a request with the Minnesota Public Utilities Commission (the Commission) for a variance from the Commission's rules regarding calculation of Purchased Gas Adjustments (PGAs). The Company proposed to vary its practice from the rules in two respects.

The Company proposed to base its commodity adjustment on projected costs and projected sales volumes, instead of current costs and historical sales volumes, as required by Minn. Rules, part 7825.2700. The Company stated that using projected costs and sales volumes resulted in more accurate estimates than the method set forth in the rule, in the current competitive environment.

The Company also proposed to apply an automatic adjustment tied to purchased-demand costs to its Large Volume (LV) demand charge, which is not permitted under current Commission rules, and to include prospective conversions from sales to transportation volumes in computing annual demand sales volumes. Commission rules require that annual demand sales volumes be based only upon historical sales, with adjustments for weather conditions. Minn. Rules part 7825.2900.

The Company stated that the proposed automatic adjustment was necessary to ensure that Large Volume customers converting from sales service to Transportation service continued to bear an equitable portion of purchased-demand costs, since these customers retained the right to return to sales service at any time. Similarly, the Company stated that taking these conversions into account in computing annual demand sales volumes was necessary to prevent significant undercollections of demand-related gas costs.

FINDINGS AND CONCLUSIONS

The Commission may grant a variance to any of its rules upon finding that the following conditions apply:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
2. Granting of the variance would not adversely affect the public interest; and
3. Granting of the variance would not conflict with standards imposed by law.

Minn. Rules part 7830.4400

The Commission finds that the Company is correct in its assertion that using projected costs and projected sales volumes, instead of current costs and historical sales volumes, will result in more accurate computation of its commodity adjustment. Historical volumes and current costs are less reliable predictors of future gas costs now that utilities and end users have many more options than they did when the rules were promulgated. Indeed, the Commission is revising its PGA rules to more accurately reflect the structure of the gas industry today, and has granted similar variances to utilities such as Northern States Power Company and Minnegasco, Inc.

The Commission also finds that allowing the Company to apply an automatic adjustment tied to purchased-demand costs to its Large Volume demand charge will result in a more equitable distribution of purchased-demand costs among the Company's customers. If NMU's proposal were not adopted, then either the Company or smaller firm customers would have to pick up the costs no longer recovered from Large Volume transportation customers who continue to be responsible for the incurrence of these costs.

The Commission finds that requiring the Company to compute its PGA in strict compliance with the requirements of Minn. Rules parts 7825.2700 and 7825.2900 would impose an excessive burden on the Company, which would undercollect demand-related gas costs. The Commission further finds that granting the variance requested by the Company would not adversely affect the public interest and would not conflict with standards imposed by law. The Commission concludes that the requirements of Minn. Rules part 7830.4400 have been met and that a one-year variance, as proposed by the Company and modified by the DPS, should be granted.

ORDER

1. Northern Minnesota Utilities is hereby granted a one-year variance from Minn. Rules part 7825.2700 to allow it to base its commodity adjustment on projected costs and projected sales volumes, instead of current costs and historical sales volumes.
2. Northern Minnesota Utilities is hereby granted a one-year variance from Minn. Rules part 7825.2900 to allow it to apply an automatic adjustment tied to purchased-demand costs to its Large Volume demand charge, and to include prospective conversions from sales service to Transportation service in computing annual demand sales volumes.
3. Northern Minnesota Utilities is hereby required to specify its restated base cost of gas in the PGA Clause in its next Compliance filing to ensure that the Company's PGA tariff is consistent with its filings.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen

Executive Secretary

(S E A L)